

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)
HAWAII WATER SERVICE COMPANY, INC.)
For Approval of Rate Increases and)
Revised Rate Schedules, and to)
Enter into Financing Arrangements.)

DOCKET NO. 03-0275

ORDER NO. 21751

Filed April 15, 2005
At 2:30 o'clock P.M.

Karen Higashi
Chief Clerk of the Commission

DIV. OF CONSUMER ADVOCACY
DEPT. OF COMMERCE AND
CONSUMER AFFAIRS
STATE OF HAWAII

2005 APR 18 P 2:33

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ATTEST: A True Copy
KAREN HIGASHI
Chief Clerk, Public Utilities
Commission, State of Hawaii.

K. Higashi

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Docket No. 03-0275

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ORDER

The commission approves the stipulated rate design (Attachment 1 hereto) jointly filed on April 8, 2005 by HAWAII WATER SERVICE COMPANY, INC. ("HWSCI") and the Department of Commerce and Consumer Affairs, Division of Consumer Advocacy ("Consumer Advocate") (collectively, the "Parties"), in response to Decision and Order No. 21644, filed on February 11, 2005.

I.

Rate Design

On February 11, 2005, the commission: (1) approved a general rate increase of \$238,500, or 8.31 per cent over revenues at present rates for HWSCI; (2) rejected the Parties' stipulated rate design; and (3) instructed HWSCI to submit a new rate schedule for the commission's review and approval, consistent with the terms of Decision and Order No. 21644.¹ On March 18,

¹In the absence of credible cost and allocation data, the commission advised HWSCI "to submit a rate design that proposes a uniform, across-the-board (fixed and variable) percentage increase, or closely aligned thereto. HWSCI shall: (1) clearly

2005, the commission denied HWSCI's Motion for Partial Reconsideration, filed on February 22, 2005.

Following numerous extensions of time,² the Parties, on April 8, 2005, jointly filed their Stipulated Rate Design ("Stipulation") for the commission's review and approval.

II.

Stipulated Rate Design: Attachment 1

The Parties' proposed rate design consists of primary and alternate proposals. In sum, the Parties explain that their: (1) primary proposal (Attachment 1 of the Stipulation) is based on fixed and variable costs, with considerable attention to water conservation; and (2) alternative proposal (Attachment 2 of the Stipulation) is based on a uniform, 8.32 per cent across-the-board increase in all rates. The Parties' supporting workpapers are attached as Attachments 3 to the Stipulation.

The Parties' primary proposal, attached hereto as Attachment 1, proposes to implement HWSCI's commission-approved revenue increase by increasing the: (1) applicable monthly standby charge, based on each customer's meter size,

explain its calculations; and (2) include all supporting work papers, utilizing correct amounts, figures, and calculations thereto." Decision and Order No. 21644, at 46 (footnote and text therein omitted). HWSCI also had the option of submitting its new rate schedule jointly with the Consumer Advocate as a stipulated filing.

²Commission's letter, dated February 24, 2005 (first extension); Order No. 21691, filed on March 10, 2005 (second extension); and Order No. 21722, filed on April 5, 2005 (third extension).

across-the-board by approximately 22.4 per cent; and (2) monthly water consumption charge by 6.5 per cent.

The Parties, in recommending the adoption of Attachment 1, state:

1. "A fundamental principle of cost of service rate design is the alignment of fixed costs with fixed rates and variable costs with variable rates."³

2. Hence, Attachment 1: (A) implements rates that closely align fixed costs with service charge rates (fixed rates) and variable costs with the consumption rate (variable rate), while giving meaningful weight and a strong incentive to conserve water because a portion of the fixed costs are recoverable through the consumption rate; (B) minimizes cross-subsidies among customers, with each customer charged only for the cost of services provided; and (C) balances cost of service and conservation in a fair and equitable manner.

3. Ultimately, in recognizing these principles, Attachment 1 is designed to: (A) recover some portion of all fixed costs in the consumption rate, with the remaining fixed costs recovered through the service charge rate; and (B) align fixed rates more closely with the fixed costs of HWSCI's utility operations.

4. Moreover, as reflected in the Parties' Attachment 3-A, their primary proposal is projected to have minimal impact in the rate increases by customer class, with a range of

³Parties' Stipulation, at 1.

8.02 per cent (Other class) to 8.55 per cent (Commercial class), which is consistent with the overall increase of 8.31 per cent over revenues at present rates approved by the commission in Decision and Order No. 21644.

5. Conversely, a uniform, across-the-board percentage increase: (A) does not allow HWSCI to develop a rate structure that properly recovers fixed costs through a fixed charge and variable costs through the consumption charge; and (B) will not appear to induce behavioral changes in the demand for water.

The primary proposal: (1) reduces the monthly standby charge for each customer class from the Parties' initially proposed fifty-two (52) per cent increase,⁴ to a 22.4 per cent increase; and (2) is designed to encourage water conservation to a greater extent than the Parties' initial rate design previously rejected by the commission.⁵ Furthermore, the Parties' workpapers (Attachments 3) explain in detail the calculations in support of their primary proposal (Attachment 1).

The commission: (1) finds just and reasonable the Parties' primary rate design, as reflected in their Attachment 1; and (2) approves the Parties' Attachment 1.

⁴See Decision and Order No. 21644, Section IX.

⁵Id.

III.

Orders

THE COMMISSION ORDERS:

1. The Parties' primary rate design, as proposed in their Stipulated Rate Design, filed on April 8, 2005, and attached hereto as Attachment 1, is approved. The effective date of HWSOI's increase in rates and revised tariff sheets is five (5) business days from the date of this Order.

2. HWSOI's revised tariff sheets and rate schedules, with the applicable issued and effective dates, shall be filed with the commission and served upon the Consumer Advocate within three (3) business days from the date of this Order. The revised tariff sheets shall incorporate the revisions approved by the commission in Decision and Order No. 21644, Section X, and the rate schedule shall incorporate the rate design approved by this Order.

DONE at Honolulu, Hawaii APR 15 2005.

PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By Carlito P. Caliboso
Carlito P. Caliboso, Chairman

By Wayne H. Kimura
Wayne H. Kimura, Commissioner

APPROVED AS TO FORM:

Michael Azama
Michael Azama
Commission Counsel

By Janet E. Kawelo
Janet E. Kawelo, Commissioner

ATTACHMENT 1

HWSC Proposed Rate Design

| | <u>Present Rates</u> | <u>Proposed Rates</u> | <u>Percent Increase</u> |
|---|----------------------|-----------------------|-------------------------|
| Quantity Charge (per 1000 Gallons) | \$ 2.49 | \$ 2.65 | 6.5% |
| Service Charge (per meter per month) | | | |
| For 5/8 inch service | \$ 11.00 | \$ 13.46 | 22.4% |
| For 3/4 inch service | \$ 11.00 | \$ 13.46 | 22.4% |
| For 1 inch service | \$ 16.00 | \$ 19.58 | 22.4% |
| For 1-1/2 inch service | \$ 50.00 | \$ 61.20 | 22.4% |
| For 2 inch service | \$ 75.00 | \$ 91.80 | 22.4% |
| For 3 inch service | \$ 290.00 | \$ 354.96 | 22.4% |
| For 4 inch service | \$ 425.00 | \$ 520.20 | 22.4% |
| For 6 inch service | \$ 1,630.00 | \$ 1,995.12 | 22.4% |
| For 8 inch service | \$ 2,390.00 | \$ 2,925.36 | 22.4% |

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Order No. 21751 upon the following parties, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
DIVISION OF CONSUMER ADVOCACY
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Karen Higashi

DATED: APR 15 2005